



THE PARTNERSHIP PLAYBOOK

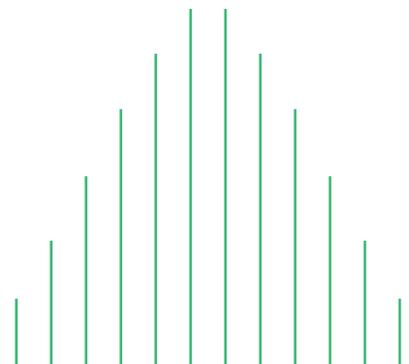
Your Legal Guide to Business Partnerships:
From Formation Through Dissolution
and Everything in Between
By **Holmes Business Law, P.C.**



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This document is not legal advice.
The content below is general business advice only.
You should always consult a lawyer about your unique legal situation.



A note from attorney Sarah Holmes and her team:

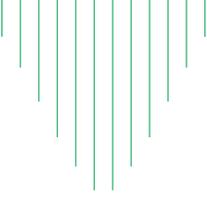
Business partnerships can be incredibly rewarding but also challenging, especially when it comes to all of the legal issues and compliance requirements you have to meet. Your business partnership has a much greater chance of success when you approach your venture with the knowledge and expertise included in this general guide. However, this guide is not legal advice, so you should consult with a lawyer about your unique legal needs.

One part of being a successful business partner is delegation – knowing when to do things yourself versus letting an expert take care of certain tasks for you. For your peace of mind and a strong foundation for your business, legal is one of those tasks best delegated to the experts.

At our Philadelphia-based law firm, we help businesses thrive every single day. Contact our business attorneys today at **215-482-0285** or [book a call with our team right now](#) to get legal advice personally tailored to your partnership's success.

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6 Key Factors to Consider When Forming a Successful Business Partnership

A proper partnership agreement makes your new venture real. But the success of your business partnership depends on several intangible key factors that you must consider from the outset.

Sure, your partnership may look great on paper. But how well do you and your partners actually work together? Do your values align? Can you trust each other?

The last thing you want is to regret going into business with someone after the fact, having spent years of your time and thousands or millions of dollars on a partnership that was doomed to fail. Before you sign on the dotted line and start leveraging your position on behalf of the partnership, make sure you can answer all of the following questions.

1. Teamwork – How Well Do You Work Together?

If you want your partnership to succeed, you've got to work together effectively. Ask yourself: do you feel like you and your partner are usually on the same page, or do you often feel let down or left behind in the dust? Does everyone know what duties and responsibilities they have? You and your partner should be able to split decision-making power so that you're not engaging in destructive power struggles that sap morale and ultimately hurt the partnership.

A good team works together like a well-oiled machine. That doesn't mean you don't have your difficulties, but you should be able to work through challenges constructively together so that you can keep moving forward with your vision. The right team dynamic allows you and your partners to anticipate, delegate, and cover each other's needs as they arise.

If your partnership is new, your team dynamic may take time to develop. Ideally, it will get stronger over time – especially if you set yourself up for success in the beginning. That means staffing team members with the relevant expertise to handle all the different needs of your business – such as sales, marketing, legal, data resources, and call center operations.

2. Communication – Are Everyone's Needs Being Met?

Communication is a huge part of teamwork and a major factor in building success. 86% of executives and employees report ineffective communication and lack of collaboration as the source of workplace failures. How do you and your partners communicate with each other? Do you listen to each other or talk over one another? Are your communication styles compatible or do you keep butting heads without making any headway?

Pay special attention to how your partners communicate with you while you are forming your partnership. Are they slow in their responses to emails, texts, and calls? Do you have to ping them multiple times to get an answer? Whatever patterns you see now are what you can expect for the future. If they keep missing deadlines, that could be a big red flag.

3. Skill Sets – How Do You Complement Each Other?

A partnership is all about combining your skillset with someone else's for better results than each of you would get on your own. The best partnerships complement each other – you want to find a business partner that strengthens your weaknesses and vice versa.

The whole point of entering into a partnership is to get greater resources to accomplish your vision. Ideally, you want to find a partner who can provide the resources and skills you don't have on your own. Maybe you have the science, technology, and capital – while your partner provides the technical know-how and industry connections. The most successful partnerships will allow you and your partners to do what you are all best at for the good of the whole.

4. Vision – Are Your Long-Term Goals Aligned?

Long-term goals are just as important as your short-term plans and they shape your whole strategy from the outset. Is your ultimate goal to grow your business and then find a buyer? Or are you more of the mind to grow your business with additional partners in the future?

If you and your partners don't see eye-to-eye on long-term goals, it might be time to sit down and have a conversation about it. Otherwise, these fundamental issues can cause major disruptions to your relationship later, after you've already invested so much in the partnership.

6 Key Factors to Consider When Forming a Successful Business Partnership



5. Trust – Can You Trust Your Partner to Execute Your Vision?

Trust is critical in a business partnership, just like a personal relationship. You must be able to trust that your partners are as invested as you in making your vision come true. Not only that, but you must also be able to **trust that your partners will deliver on their promises** – whether that involves inventory, capital, expertise, or another type of performance.

You won't be able to supervise your business partners all the time – and neither should you. You might trust your partners because you know them personally. But if you don't know your partners that well, that's where proper background research comes in. Does your partner have a record of success that they can prove? Have they won and delivered on big contracts before?

What are their ratings and reviews like online? Does their business have any complaints, lawsuits, or bankruptcies? No one is perfect but it's good to know what you're getting into.

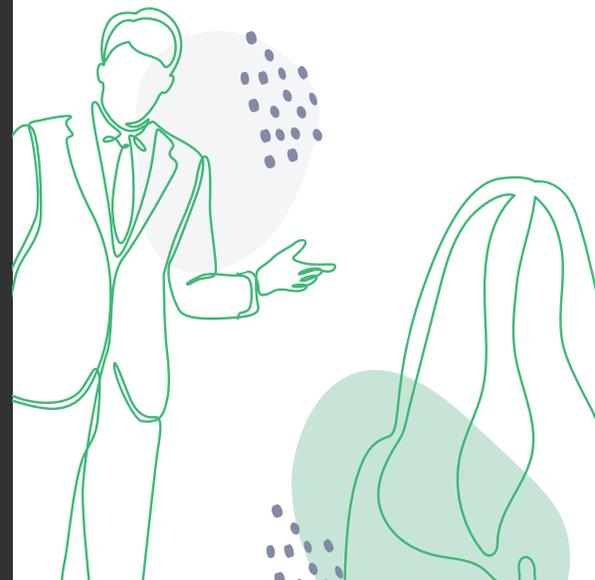
6. Temperament – Is the Partnership a Cultural Match?

Temperament and cultural fit are important whether you're going into a business partnership with an individual or another business. Is your partner aggressive in business? Are they also aggressive when it comes to litigation? Are they new in their industry or an established player?

Cultural fit can really come into play when a larger company enters into a partnership with a smaller company. For example, you may be a startup doing things differently in your field when it comes to office structure, remote work, employee benefits, and expectations. You may be dedicated to "green" and sustainable operations. Does your new partner match or at least respect your values enough not to compromise your mission statement? If you already have customers, will the partnership with a larger company alienate any of them?

These are all important considerations you must take into account while you're in the process of setting up your partnership. The next step of course is to create your partnership agreement. If you want to cover all your bases, your best bet is to hire a business lawyer who can help you get the most out of your new partnership venture. Call the Philadelphia offices of Holmes Business Law at **215-482-0285** or **book a call now** to get started.

6 Key Factors to Consider When Forming a Successful Business Partnership



Establishing the Basics of Your Partnership Operating Agreement

Your partnership operating agreement is the most important document when it comes to setting up your business partnership for success. A proper partnership agreement should establish several key operating decisions, such as each partner's contributions to the venture, their voting rights, percentage of ownership, management duties, and share of profits.

But the basics of your partnership operating agreement are just as important – your business name, where your office will be located, the actual purpose of your business. These “basics” of establishing your business partnership are often not that basic after all, which is why you should get a business lawyer involved early on in the process.

To start, **picking a name for your business partnership** sounds simple enough. But before you settle on a name, you must make sure the brand or trademark isn't already taken. You must also make sure to include the proper legal name of your business as well as any additional trade names or “fictitious names” such as “doing business as” (DBA) names.

For example, the legal name of your limited liability partnership could be “Company ABC, LLP,” but you may also refer to your business as “The ABC Company” in advertising materials and simply “ABC” in internal documentation. These trade names should all be properly registered and associated with your partnership's legal name.

Missing these critical details could cost you later on – for example, if you have to change the name of your business after months of building your brand. The best approach is to be as thorough as possible from the start so that the foundations of your partnership start off strong.

Where Should You Register Your Partnership's Main Office?

As you set up your business partnership, you must decide where your business will be registered (with a registered agent) and where you will have your "principal place of business." Your headquarters does not have to be the same place your agent is registered.

Your **principal place of business** is the primary location where your partnership conducts the bulk of its business functions. Usually, this is the place where the partnership keeps its business books and records as well as where the partners or senior management report when they go on-site.

However, this may change depending on the nature of your business. For example, you may have one office for board meetings but another location where the company's operations are actually coordinated and managed.

Your principal place of business does not have to be a "traditional" office. A dentist's main office could be the location where they see patients. For an auto mechanic, your principal place of business could be the garage where you repair vehicles.

If your principal place of business is in a different state than where you originally registered your partnership, you will have to register and designate a registered agent in both states.

For example, if you registered your partnership in Delaware but your headquarters operates out of Pennsylvania, you will need a registered agent in both states.

Your partnership's **state of registration** and **principal place of business** will determine how you get taxed, whether you have any additional legal requirements to fulfill, and where your partnership could get sued in the case of a legal dispute. A business lawyer can help you determine the best and most strategic configuration for your partnership.

Establishing the Basics of Your Partnership Operating Agreement



What Is the Length and Purpose of Your Partnership?

How long do you and your partner plan to be in business together? Are you collaborating on a one-shot or long-term venture? Do you plan to sell your company or take it public?

What products or services will you be selling exactly? How do you plan to conduct your day-to-day business? What metrics will you use to calculate your success?

These are all important questions to consider while you're forming your partnership. And although the answers may seem basic or even self-explanatory, your partnership benefits from laying out the **length** and **purpose** of your venture **in clear terms** from the beginning.

Stating your partnership's purpose helps keep you on track towards your goals. Not only that, but the terms of your partnership operating agreement will come into play if there's ever a partnership dispute. For example, if you sense that your business partner is taking your company in an unsanctioned direction, you could show the terms of your partnership agreement as evidence that their actions do not align with your original goals.

Establishing the Basics of Your Partnership Operating Agreement

What Types of Partners Make up Your Partnership?

Pennsylvania and New Jersey state laws recognize limited partnerships, limited liability partnerships, and general business partnerships. Each of these partnership structures comes with pros and cons for limited and general partners.

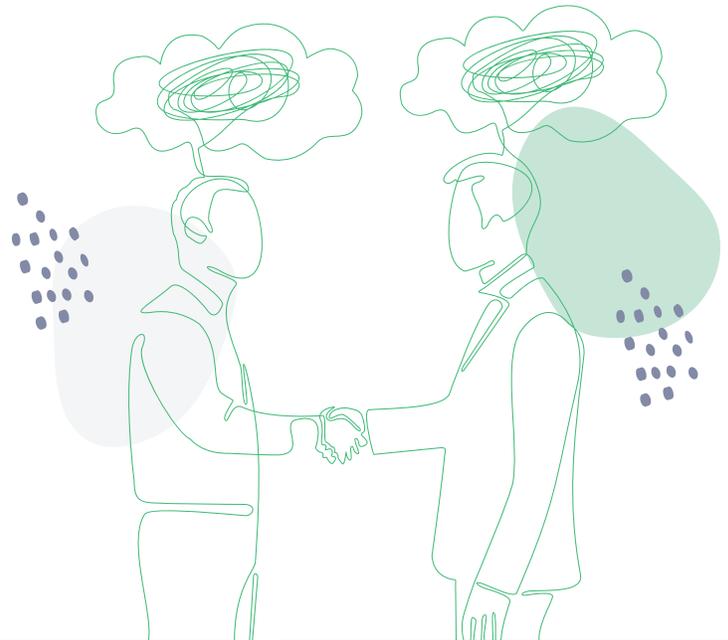
What's the difference between a limited partner and a general partner?

Simply put, general partners have a lot more to gain and lose from your partnership. They tend to get the bulk of the profits while also taking on the greatest risk of liability.

If the partnership fails, general partners would be on the hook (personally liable) for paying off the partnership's debts. In contrast, limited liability partners are only liable for the amount they've invested into the partnership. Creditors can go after a general partner's personal assets to recover their losses but cannot reach the personal assets of a limited partner.

Because general partners have a greater stake in the partnership, they often get the bulk of the venture's profits as well as managerial control. Limited partners tend to have limited responsibilities and privileges as well as limited liability. In many cases, limited partners act as "silent partners," especially if their primary contribution is capital investment, not expertise.

Your status as a general versus limited partner will affect your voting rights, decision-making authority, debt liability, and profit share in the partnership.



How Should You Choose Governing Law for a Partnership?

The laws that govern business partnerships vary by state. States have different requirements and processes for filing partnerships and resolving partnership disputes. You can include a "choice of law" or "governing law" provision in your partnership agreement to specify which state's laws you wish to apply to your partnership in the event of any legal issues.

Why is a governing law provision so important? This allows you to choose a state with laws that benefit your partnership. Your choice of state law also helps make the dispute process more predictable and manageable for your partnership. You'll know exactly which laws apply to your venture and you won't have to deal with an unfamiliar state's laws.

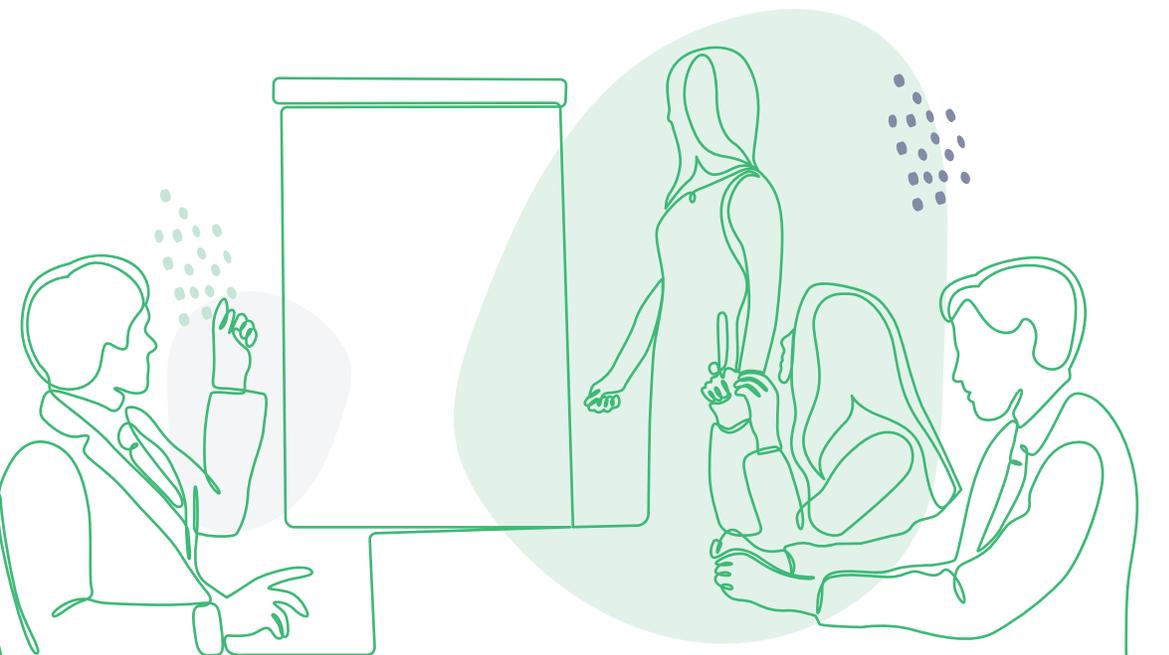
An experienced business attorney can help you structure your partnership in a way that is best geared for success on your terms. Call the Philadelphia area offices of Holmes Business Law now at 215-482-0285 or book a call now to get your partnership started on the right foot.

8 Most Important Clauses to Include in a Partnership Agreement

Starting a partnership? Welcome to the beginning of an exciting new venture! You and your partners have ideas, dreams, and funding – and you're ready to hit the ground running.

The first steps you take to establish your partnership and create a partnership agreement are absolutely critical in helping you reach your vision. Whenever you go into business with a partner, you want to make sure you've got all your legal ducks in a row before the rubber meets the road. The last thing you want is to hit a snag while you're going full speed ahead.

Although you may be tempted to create your partnership agreement out of examples or templates you find online, the best approach is to talk to a business lawyer about your specific circumstances. Your partnership's foundations will be much stronger for it – and much more attractive to investors, clients, and future partners alike.



1. The Basics of the Partnership

Your partnership agreement should start by establishing basic information about your venture. You want to make sure you get these terms correct to start your partnership on the right foot.

- Your partnership's name – You can also include your partnership's type in your name, along with any other names under which your partnership will do business.
- Your partnership's principal office – Either the office of a managing partner or a registered agent where official and legal documents will get delivered.
- The length of your partnership – Will your partnership continue in perpetuity or operate only for a specific length of time? Can either partner quit the partnership at will?
- The purpose of your partnership – What activities will your partnership engage in? What types of services or products are you selling?
- The types of partners that make up your partnership – Partnerships can have general partners and limited partners, each with different responsibilities and liabilities.
- Governing law – If there's a dispute that involves your partnership, which state's laws will decide the outcome? Where would you prefer to go to court in the case of a lawsuit?

2. Percentage of Ownership in the Partnership

When creating your partnership agreement, it's critical to lay out how ownership interests will be handled between partners. Terms of ownership can cause conflict if they're not spelled out clearly or if they haven't taken into account each of the partner's interests.

A business lawyer can help you anticipate possible scenarios and handle them successfully. You should be able to answer the following questions:

- How much of a stake will you and your partners each get in the partnership?
- What will each partner get if you sell the partnership?
- Are you willing to take on any new partners? If so, what ownership interest will they get?
- What happens if one partner wants to withdraw from the partnership?
- What are the other partners' options when it comes to buying out a partner?
- How will ownership interests be handled in drastically altered circumstances, such as a partner's death, bankruptcy, or retirement?

You may want to include additional terms to protect your partnership for the future, such as a non-compete clause for any partners who end up leaving the partnership.

3. Each Partner's Authority in the Partnership

Even if you and your partner have been on the same page since day one, it's impossible for you to agree on everything all the time. A clear authority and decision-making structure can help keep disputes from dragging down your partnership.

- Who makes the important decisions in the partnership?
- Who has a say in deliberating important partnership decisions?
- What types of decisions require unanimous partner agreement or consent, and which types of decisions can partners make on their own?

8 Most Important Clauses to Include in a Partnership Agreement



4. Each Partner's Contributions to the Partnership

You should clearly put into writing what each partner has contributed to the partnership and will contribute in the future. This should cover not only financial contributions and investments but also how much time and effort that partner is willing and expected to put into the venture.

Will the partners contribute real estate, equipment, gas mileage, or bring in customers? These expectations should be laid out as clearly as possible for the benefit of everyone involved.

7. How to Handle Critical Developments in the Partnership

Business doesn't always proceed as planned, for better or for worse – so it helps to be prepared. Some industries are prone to certain types of "critical developments" more than others. An experienced and knowledgeable business attorney can help you set the terms for how to successfully handle any major changes that affect your partnership.

- What happens if a partner becomes sick, retires, or passes away?
- How will you evaluate your business if you get an offer to sell?
- When can you modify your partnership agreement and what's the process?

5. Distributions, Allocations, and Profit and Loss Division

Although this partnership may be a passion for you, it's also a venture to make money.

- Will any partners receive a salary from the partnership and how much?
- Which partners will get paid, how much, and when?
- How will you split your business profits between all the partners?

8. How to Handle Dissolution of the Partnership

The last thing you want to think about at the beginning of your partnership is the end, but thinking about your partnership's terms of dissolution can save you from difficulties later on. The partnership dissolution process will be different depending on the state in which you operate, so it's important to find a local business lawyer who can help. Read more about the most important factors when entering a business partnership.

At Holmes Business Law, we can create a partnership agreement that accurately reflects your hopes and aspirations, protects your new venture for the future, and sets you up for success. Call our Philadelphia area offices at **215-482-0285** or book a [call now](#) to get started.

6. Partnership Management and Dispute Resolution

No one wants to imagine your partnership going so far south that you and your partners become unable to agree on how to move forward. Fortunately, it's your business lawyer's job to anticipate issues like these and prepare you to handle them as constructively as possible.

A partnership agreement allows you to set the terms of dispute resolution between partners. For example, you can require partners to try mediation before escalating the dispute. If mediation doesn't work, you can set terms for arbitration in order to keep your dispute out of the courts. Court cases become public record as soon as they're filed, which most people want to avoid.

8 Most Important Clauses to Include in a Partnership Agreement

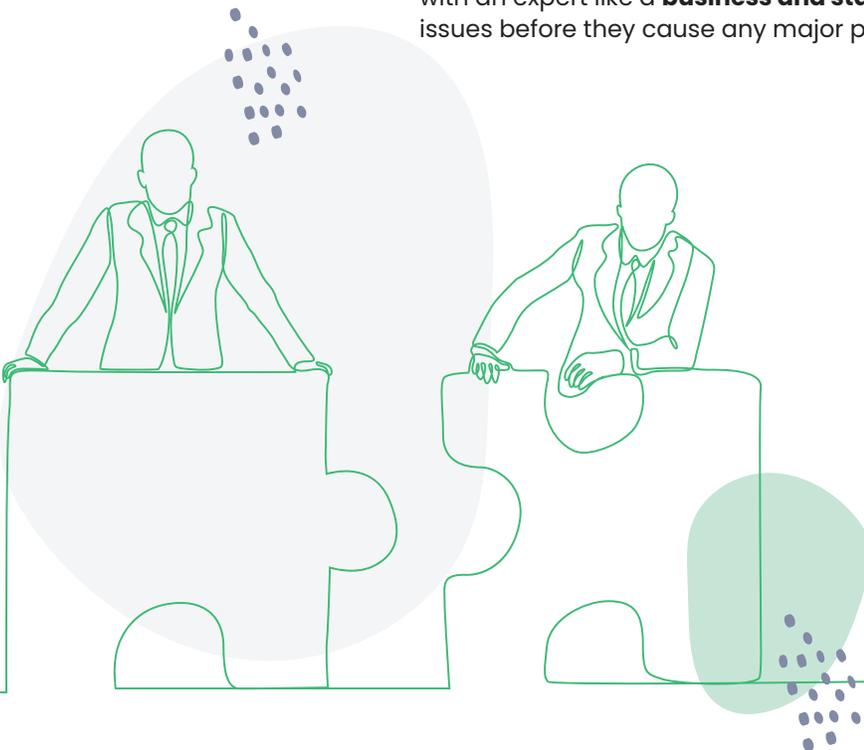


How to Structure Equity and Voting Rights in a Partnership or Startup

It's a common scenario: one person or company has an excellent business idea but not enough funding to get their vision off the ground floor. Another has the capital to support the venture. By pooling their resources, innovators and investors can create **strategic business partnerships** to enter into new markets or grow their market share together.

Business partnerships can be incredibly powerful, bringing all the right forces together at the right time for success. And yet a large proportion of business partnerships fall apart. Why? According to [Harvard research](#), **65% of startups fail because of partnership or management disputes**. Successful business partnerships need careful thought and planning from the beginning in order to avoid these types of catastrophic disputes. **Ownership, equity, and voting rights** are some of the most pivotal points to sort out properly from the get-go.

Whenever you enter into a business partnership, the **terms of your partnership agreement** are absolutely critical to the management and success of your venture. It's crucial to enter into any business partnership with a thorough, strategic approach. In the best-case scenario, you should work with an expert like a **business and startup lawyer** to anticipate any potential issues before they cause any major problems in your partnership.



How to Divide Ownership or Equity of a Partnership or Company

One of the first and most important decisions you and your business partners will make is how much ownership or equity you will each get in the partnership.

For business partners who join the venture with equally valuable contributions, this question might have an “easy” answer: equal equity for equal partners. This approach might work in the case of a three-person (or greater) partnership – each partner would get 30% ownership and voting rights so there would be no chance to tie on a vote. But with just two partners who split ownership and decision-making of the business 50-50, a dispute between equal partners could lead to a standoff or stalemate that freezes your ability to move forward.

Fortunately, you can avoid this type of deadlock in a few ways:

- You and your partner could split equity and voting rights 51% to 49%. While this won't stop partnership disagreements from happening, it gives the partnership a concrete route for moving forward so that business can continue.
- You can specify who gets decision-making power in case of a partnership dispute. Even if you and your partner have equal ownership and voting rights, tiebreaking power could be given to either under the terms of your partnership agreement.
- In your partnership agreement, you could name an outside tie-breaker to step in as a decision-maker when you and your business partner are at an impasse. This third party acts as an “outside advisor” – they could be a stockholder or board member who acts in the best interests of the partnership. In the case of a tie vote, the outside tiebreaker would decide which partner's decision makes the most sense.

How to Structure Equity and Voting Rights in a Partnership or Startup



Which approach is the right solution for you? That depends on your unique circumstances. If one partner acts more as a day-to-day manager of the partnership, you may want to grant them tiebreaking power. But if one partner's investment is what makes the venture possible to begin with, they may want to hold tiebreaking power for themselves. Is there another third party you trust enough to make important tiebreaking decisions for you? Another option would be to assign an independent arbitrator to help mediate the issues between partners and try to overcome their disputes. If a partnership ultimately cannot overcome a deadlocked vote, the business venture may have to be dissolved.

Financial Investment Versus Expertise or Innovation

Part of putting together a business partnership is determining whose contributions are the most valuable. You want to make this decision early on, before the business starts gaining value.

In many cases, a partnership's equity is based on their capital contribution. But expertise and innovation also bring a lot of value to a business partnership. For example, if one partner holds the patent for a company's product, the business would likely not be able to function without it.

Another partner's valuable contribution could involve hours of work (i.e., "sweat equity"). Whatever the ownership equation you and your partners ultimately end up with, you should clearly lay out the terms early on and explain the reasoning behind your partnership's equity structure. That includes identifying exactly what each partner will be contributing to the venture and what type of authority they will have in managing the partnership. These critical early decisions will determine decision-making powers as well as profit distribution for partners.

How to Structure Equity and Voting Rights in a Partnership or Startup



Business Partnership Voting Rights and Voting Issues

Business partnerships can have general partners and limited partners. General partners tend to have greater decision-making power because they take on the risk of unlimited personal and collective liability for the partnership. In comparison, limited partners have limited voting rights and limited liability based on the amount they've invested into the partnership.

In addition to enhanced voting rights, general partners also tend to hold more of the partnership equity and get more of the profits when the partnership performs well. Your partnership agreement should specify exactly what each partner is responsible for and which issues they have the power to vote on. For example, limited partners may not have the right to vote on managerial issues. But a limited partner who manages a restaurant may have the right to vote on menu and staffing decisions. The terms of your partnership agreement should reflect the unique needs and realities of your business and its operations.

Your partnership agreement is your business partnership's most important document. It's the foundation upon which you build your entire venture. The more solid and sound your foundation, the better prepared you'll be to take on the trials and tribulations of business ownership.

A business partnership attorney can help you put together the right terms for your venture – by asking the right questions and presenting creative solutions. Call the Philadelphia offices of **Holmes Business Law** at 215-482-0285 or [book a call](#) now to get started.

How to Handle Distributions, Allocations, and Profit/Loss Division in Partnerships

If you're entering into a new business partnership, you should decide how you're going to split profits and losses between partners before you start making money. You don't want to find yourself fighting over debts after the fact. The best way to avoid partnership disputes over profits and losses is by planning their allotment in your partnership agreement.

Without a partnership agreement in place, equal partners assume profits and losses equally. This might work in some cases, but partners with absolutely equal power risk running into a decision-making stalemate that could derail their partnership.

Partnership profits and losses are often distributed based on capital contributions and management responsibility. General partners take on greater personal risks and are often rewarded with greater profits to reflect their precarious position, while limited partners are shielded from liability beyond whatever they've invested in the partnership.

Technically, your partnership's profit and debt-sharing ratios could be whatever arbitrary numbers the partners agree upon – as long as you specify the terms in your partnership agreement. Your arrangement should reflect the investments made and risks taken by each partner in the venture so that nobody feels shortchanged when it comes to profit distributions. A qualified business attorney can help you weigh all of the relevant factors and come to a profit and debt-sharing agreement that sets up your partnership for success.



How Can Partnership Profits and Losses Be Distributed?

However you decide to divide your profits and losses, you should clearly lay out these terms early on in your partnership, ideally in your partnership agreement. Unless you specify otherwise, the law will generally divide profits and losses equally between equal partners.

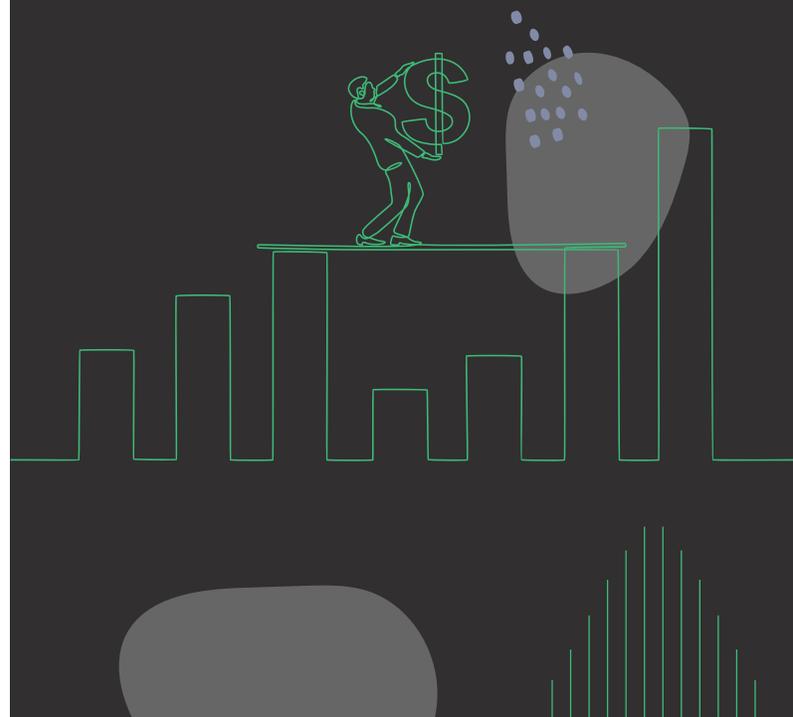
Many factors can affect how a partnership splits its profits and losses. The amount each partner gets will depend first on whether they are a general or limited partner.

- General partners tend to take on more of the risks so they often get more of the profits. In the case of debts, general partners are personally liable for a partnership's losses. Also, general partners tend to be actively involved in managing the partnership's operations, contributing more time and effort than limited partners.
- Limited partners are only liable for the amount that they invest into the partnership. Unlike general partners, their personal assets are off limits to the partnership's creditors. Limited partners also tend to have less management responsibility. Compared to general partners, limited partners often get a smaller proportion of the partnership's profits. A partner's contribution to the partnership could take the form of:
 - Money or capital – Many partnerships are formed because one partner has the ideas but not the money necessary to see them through. In your partnership agreement, you could include terms for profits and losses to be divided based on the ratio of capital contributed by each partner over the course of that year. So the partner who contributes the greatest capital will get the greatest proportion of profits.
 - Knowledge or resources – While one partner may be contributing financially, another could bring valuable information or resources to the table. One partner's patent or copyright could be worth just as much as or more than a significant capital contribution.

One partner's professional expertise could be critical to the success of the partnership, where the partnership would fail without their knowledge or industry connections. Your partnership agreement could split profits to reflect this value.

- Time and effort – Even if one partner brings in a significant chunk of capital, another might spend dozens of hours every week to ensure the success of the partnership. They may act as the partnership's boots on the ground, making sure the business operates on a day-to-day basis as well as keeping on track to meet long-term goals. You can reward their time and effort by reflecting that value in the partnership's profit-sharing agreement. There is no one-size-fits-all approach to profit and loss sharing in business partnerships, which is why templates you might find online will often fall short. The arrangement you and your partners agree upon should depend on the unique circumstances of your partnership.

How to Handle Distributions, Allocations, and Profit/Loss Division in Partnerships



Examples of Profit and Loss Distribution in Partnerships

Your loss distribution and profit-sharing agreements make up two important parts of your partnership agreement. Ultimately, your partnership agreement should show a full picture of your business arrangement: the number of total partners, the responsibilities and contributions of each partner, and the liabilities each partner takes on.

Some common examples of profit-loss sharing scenarios may look like:

- Partner A and Partner B each contribute \$100,000 in forming a business partnership. Partner A manages all of the day-to-day operations while Partner B is a silent backer. Because Partner A has greater responsibilities, their partnership agreement states that they will share losses equally but Partner A will receive 80% of the profits.
- Partner A contributes \$200,000 while Partner B contributes \$100,000 to their new partnership. Both are equally responsible for managing the partnership's day-to-day operations. Their partnership agreement states that profits and losses will be divided in proportion to the amount in each partner's capital account on the last day of the year.
- Partner A contributes \$200,000 while Partner B contributes \$100,000. Partner A is responsible for day-to-day operations while Partner B handles upper-level management. Their partnership agreement states that Partner A will take on 70% of the profits and losses based both on their greater capital contribution and because their responsibilities require a greater amount of time and effort compared to Partner B.

The hypotheticals can go on and on. If your partnership receives contributions beyond cash capital, you may have to bring in expert appraisers to properly determine what they're worth. You may need appraisers for real estate, office space, patents, trademarks, copyrights, office equipment, machinery, or other technologies that partners bring to the table.

You can also revisit your profit-sharing and loss-sharing agreements as your partnership grows. You can always update these agreements to reflect changes in your business. The best approach is to come up with a profit and loss distribution model that makes sense to you. It's best to do this early on in your partnership, ideally with the help of a business attorney who has experience evaluating partnership contributions. Call the Philadelphia area offices of **Holmes Business Law at 215-482-0285** or [book a call](#) now to get started.

How to Handle Distributions, Allocations, and Profit/Loss Division in Partnerships



How to Manage Business Partners and Resolve Partnership Disputes

No matter how well matched you are with your business partner, disagreements and conflicts are inevitable. But conflict does not have to derail your partnership.

By preparing and setting up conflict resolution tools ahead of time, you and your partners can better weather the storms that come with the wild ride that is business ownership. It's great when business partners share the same values and have a track record of working well together. But circumstances change all the time, especially in a COVID-19 world – which can put pressure on even the strongest business relationship. Or you and your partner may be working together for the first time, still figuring out each other's communication styles. Either way, you can take certain steps to better position your partnership for success.



How Do You Avoid Partnership Disputes?

Not all conflicts are inevitable. Some can be avoided with the right planning and foresight.

By minimizing avoidable conflicts, your business partnership can operate smoothly with fewer bumps, especially when you're first getting started. The conflict resolution frameworks you put into place early on could end up saving your joint venture down the line.

Give Clear Decision-Making Power

If you plan to enter into an equal partnership with one other partner, you might figure that a 50-50 split of decision-making power makes the most sense.

But a 50-50 split between two partners sets you up for a potential gridlock – a 1-vs-1 stalemate when you disagree. If you both refuse to compromise, your partnership may be unable to move forward in any way and you may have to dissolve your venture.

To avoid this stalemate, you should decide early on who will get ultimate decision-making power in the case of a disagreement. This could mean that you choose a 51-49 split between partners instead. Or you could choose a “designated decider” third party to break any stalemates – this could be a trusted business attorney or another stakeholder in the company.

Create a Robust Partnership Operating Agreement

Your **partnership operating agreement** is the single most important document when it comes to setting up your business for success. You may be excited to get started on your partnership and hit the ground running, but taking the time to properly consider and establish your partnership terms first could save you untold headaches down the road. Some of the most important terms in your partnership agreement involve:

- **Establishing the purpose of your partnership.** What products or services will you be selling? What actions will you need to take to make your vision come true?
- **Deciding what governing law will apply.** In the case of a dispute, which state laws should determine the outcome? Which courts would you prefer to hear your case?
- **Detailing each partner's ownership, responsibilities, decision-making authority,** and partnership contributions, such as capital, expertise, assets, or time.
- **Determining how profits and losses will be divided among partners.** Make sure everyone is on the same page when it comes to what they'll be earning and what liabilities they can expect to take on for the partnership.

Managing expectations is key when it comes to minimizing unnecessary conflict. Your partnership agreement should reflect your vision and keep your venture on track.

You could also include a mission or values statement along with your partnership agreement, where you set out the culture, growth philosophy, and commitments of your venture.

Meet Your Partner(s) in the Middle

Every partnership is unique. Consider how you and your partner complement each other. Cater to each partner's strengths whenever possible and recognize your weaknesses.

Transparency is critical when it comes to the success of your partnership. You and your business partners must be able to communicate honestly and effectively with one another.

Problems often arise when communication breaks down, so one solution could be to schedule a regular meeting where partners can freely communicate their concerns. You could even detail a mediation plan in your operating agreement that gives you a path forward when conflicts arise.

Bring a Professional Into the Relationship

Despite the professional nature of business, partnerships can get extremely personal. Bringing in an objective third party such as a business attorney can be a game-changing source of support, helping partners anticipate and resolve difficult issues before they become problems.

When you're in the thick of starting your business partnership, the bigger picture is often hard to see. A business lawyer can help you focus on your goals with effective strategies catered to your partnership's unique needs. An objective professional can also make sure each partner's needs and expectations are met when they might otherwise get overlooked.

How Do Business Partners Resolve Conflict?

Conflict does not have to tear apart your partnership. The strongest partnerships aren't free of all conflict – rather, they can successfully work through conflict to keep moving forward.

Address Disputes Early On

When needs don't get addressed, they can fester into resentment. Have a conflict resolution procedure in place to help partners bring up any issues before they get worse. Hopefully, you and your partners have a regular meeting where you check in with each other. If you don't, you should bring up any issues with your business partners as soon as they arise. This is where a third-party professional can really help grease the wheels of communication.

Partnership Mediation

Mediation involves bringing in a neutral third party who acts as an intermediary between two disputing partners. Business mediators are trained in communication, negotiation, and conflict-resolution techniques. Mediation is a great alternative to litigation – going to court to resolve a partnership dispute can get complicated and expensive. When you choose mediation over litigation, you and your partner negotiate the resolution instead of a judge deciding the outcome of your dispute.

Business partnership disputes are bound to happen. When they do, you should keep your partnership's ultimate goals in mind. Ideally, you and your partner can come to a resolution amicably and effectively. The more prepared you are for the possibility of a dispute, the better chance you'll have at resolving the issue and continuing your venture's growth. Call the Philadelphia area offices of Holmes Business Law at **215-482-0285** or [book a call now](#) to prepare your partnership for success.

How to Handle Distributions, Allocations, and Profit/Loss Division in Partnerships



How to Handle Critical Developments in Your Business Partnership

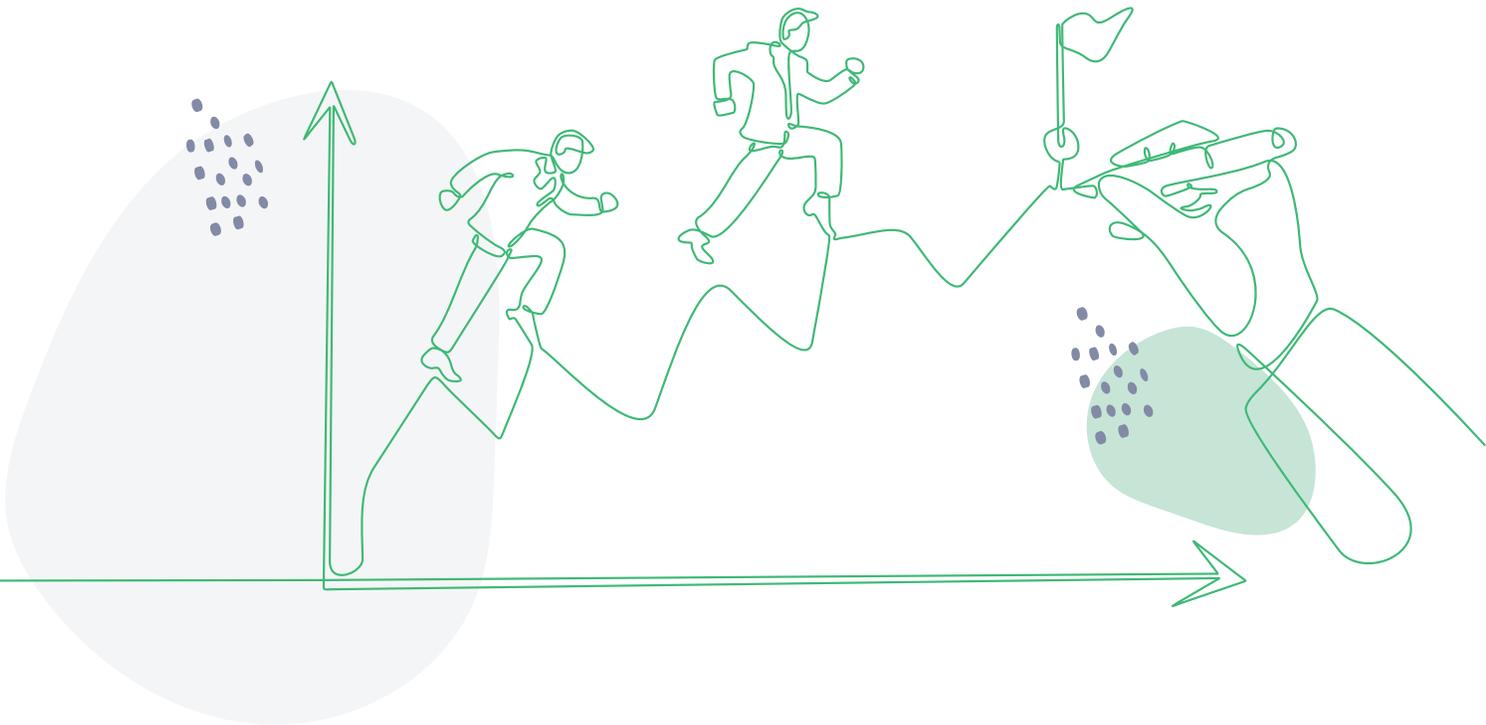
Imagine this scenario: your business partnership is off to a great start. You and your partner get along and work well together. Your vision is aligned and you've knocked a few business goals out of the park already. And then one of you falls ill, or your partner has to move away, or another company offers to buy you out. What do you do?

We all know what happens to best-laid plans. Sometimes reality doesn't work out as imagined, no matter how strong your vision and will. Nobody goes into a business partnership expecting it to go badly – hopefully, you're excited and optimistic about your venture.

While you can't anticipate everything that could possibly go wrong, you can cover the most common contingencies with a little bit of planning. Thinking about worst-case scenarios isn't pleasant but it can actually save your business partnership in case of any unexpected turns. You can start planning

for the unexpected in your business partnership agreement. But even if you don't prepare for the unexpected ahead of time, you can successfully work through many of these situations with a partnership agreement modification.

Depending on how well you and your business partner communicate, you could move forward with a partnership modification through mediation with a neutral third party or negotiation where you and your partner are each represented by legal counsel. Creating a strong foundation in your partnership agreement will help you weather any storms that come your way. It's important to get a personalized approach to your partnership since no two businesses face the same issues and risks. This is why templates often don't work. A business attorney can look out for you and help protect you from these curveballs.



Handling Critical Partnership Developments

A business partnership is first and foremost a human endeavor. Business partners often act as driving forces, pouring their passion, efforts, capital, and time into the venture. So when a partner's circumstances change, that can dramatically affect your business. A strong partnership agreement will act as a guide for how to handle these situations.

In the absence of guidance from your partnership agreement, you and your business partner can sit down to negotiate new terms for how to move forward. Partners must be in unanimous agreement when making changes to the terms of their partnership.

- **If a business partner gets sick or moves away**, they may not be able to contribute to your partnership the same way that they have up to that point. A managing partner may become unable to carry out the day-to-day management of business operations. You may have to find another business partner or step up your own efforts to keep up. If the partner had a lot of authority and decision-making power before, they may be better off playing a more minor role as a limited partner moving forward.

In many partnerships, profit distribution is based on each partner's contribution to the venture. So when that contribution changes, you'll want to change the way profits are divided as well.

- **A business partner may pass away** or decide to withdraw from the partnership for whatever reason. Your partnership agreement should outline the procedures you'll take in these circumstances. How much notice does a partner have to give before voluntarily withdrawing from the partnership? Do the remaining partners get a right of first refusal to buy the withdrawing partner's share of the company? Will the partnership dissolve if a partner leaves or passes away? If so, what will happen to the business and its assets?

Similar complications may arise when your business partner is another company. Planning ahead of time can save you a lot of grief in these situations.

- **A business may run into production** or supply chain issues. Nowadays the economy is more volatile than ever. What happens if a partner is unable to deliver on the terms of the partnership? Does the partnership dissolve? Can the partnership find another partner or supplier? What would this process look like?

- **What happens if a business partner goes bankrupt?** This will affect your joint assets and debts, especially if the partner

is a general partner. It's absolutely critical that you properly strategize the structure of your partnership in your initial agreement. If your partner's assets get frozen, that could affect the operation of your business.

- **What about bringing on new partners?** You can plan ahead for when your business grows and expands by specifying how new partners would be onboarded in the future. After all, as your operation grows, it's common to need greater resources.

Ideally, you and your business partners are on good enough terms to sit across from each other in a mediation or negotiation. But in some cases, communication between partners could break down. This could happen over time or after a single inciting incident. If you're unable to come to a unanimous agreement to amend your partnership, you may have to halt operations, dissolve the partnership, and litigate the division of assets and debts.

How to Handle Critical Developments in Your Business Partnership





How to Handle Sales Offers for Your Partnership

A business partnership could be sold in full with the unanimous consent of all partners or in part, where a single partner sells only their share of the partnership.

Again, it helps to anticipate the sales process in your partnership agreement before any offers come in. By following your previously agreed-upon terms, you and your partners have a solid idea of what to expect. This can help the sales process go much more smoothly.

When presented with a sales offer for your business, you must usually meet with all the partners in order to vote on how to proceed. The rules around this process will change based on your partnership terms and which state laws apply. So a Pennsylvania business sale will operate under different rules compared to New Jersey or Delaware.

You will have to decide which assets will be sold and how debts will be handled in the sale. In addition, you will have to consult with a business advisor and appraiser to get an accurate idea of how much your operation is worth. Your business lawyer can help by referring you to the appropriate experts, negotiating for you, and protecting your interests in the sale. Call the Philadelphia offices of Holmes Business Law at 215-482-0285 or book a call now to get started on your partnership modification or sale.

How to Handle Critical Developments in Your Business Partnership



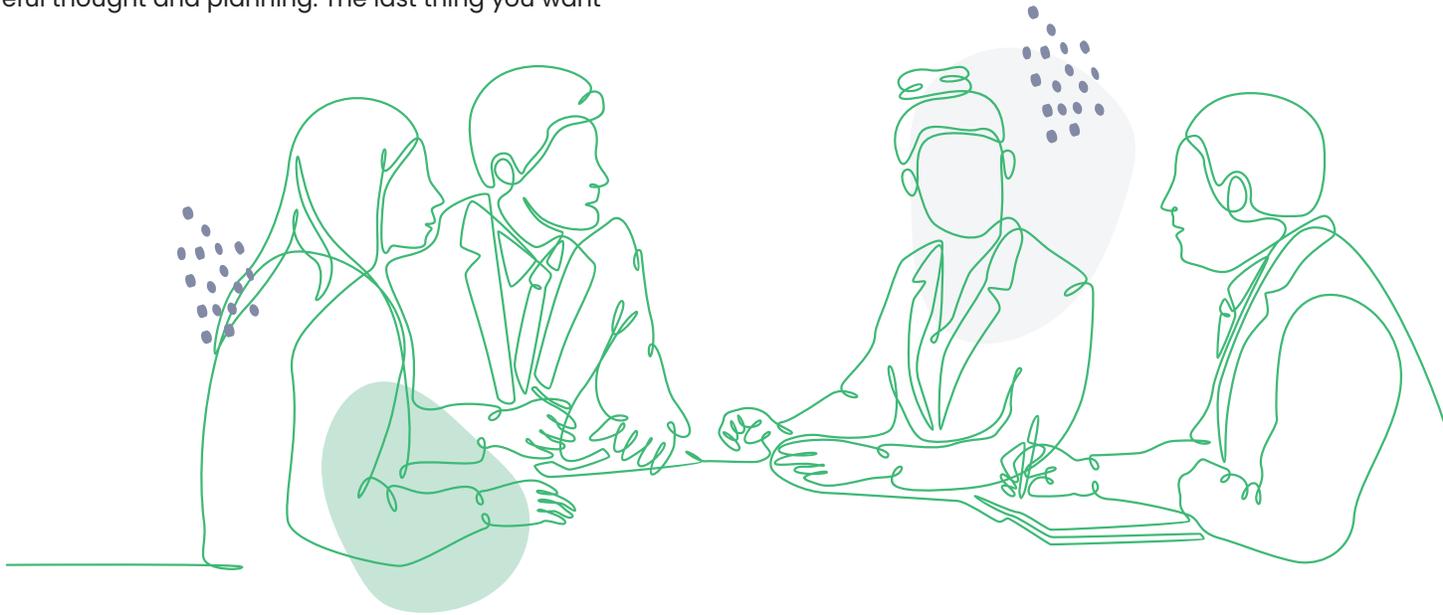
How to Dissolve a Business Partnership

Dissolving a business partnership isn't an easy decision to make. But sometimes closing your business is the only decision or the right decision in the circumstances. Dissolution can also happen automatically if an equal partner who owns 50% of the partnership decides to leave.

Whatever the case may be, the best approach to a partnership dissolution involves several steps of careful thought and planning. The last thing you want

is to dissolve your partnership only to discover loose ends months or years after you've moved on.

Closure is important – and it's critical to close out your partnership properly. Not just to avoid liabilities, fines, or taxes down the line, but also to know where you stand in the end.



What Happens After a Partnership Dissolution?

Dissolving a partnership involves terminating the business relationship and splitting any remaining assets, debts, and profits between the partners. Unofficially terminating a partnership is different than officially dissolving it under the eyes of the law. When you start a partnership, you essentially create a new legal entity based on the terms of your partnership agreement. Even if you and your partner stop working together, you must still take the proper steps to “wind down” this legal entity.

So how do you go about dissolving your business in the right way? Below is a summary of what you can expect, but you should speak with a business attorney about the details of your case. Every partnership is different and deserves a tailored approach.

1. Look to Your Partnership Agreement

Ideally, you and your business partners put some time and thought into determining the terms of your partnership agreement before you started your venture. Although partnership agreements are not required by law, setting out expectations and guidelines for various situations ahead of time can help smooth out the process when complications inevitably come up.

Your partnership agreement may specify how to split assets and debts in case of dissolution. If so, you've got a clear blueprint to follow, although it may not cover everything. But if your partnership agreement is silent on how to handle the dissolution, your state's laws will apply. The legal procedures and requirements will change based on whether you filed your partnership in Pennsylvania, New Jersey, Delaware, or another state.

2. Discuss and Put Dissolution to a Partnership Vote

Many partnership agreements require partners to vote before dissolving the partnership. The majority or all of the partners may have to agree before the partnership can be dissolved.

What if you have just two partners who split the partnership equally? By default, if either partner withdraws from the business, that dissolves the partnership. But your partnership agreement may allow the remaining partner to buy out the other in order to continue doing business.

Pro Tip: These types of situations are why 50/50 equal partnerships are not necessarily the best option. When you're on totally equal footing with your partner, it's easier to get into stalemates that could derail your partnership. By splitting the partnership 51/49, you can choose who gets the ultimate decision-making power to move forward.

What if not all partners agree to the dissolution?

If not enough partners agree to dissolve the partnership, your agreement may give the remaining partners the option to buy out the partners who wish to leave. If you're unable to agree on a buyout price, you could bring in a mediator or file for court-ordered dissolution.

Going to court is usually a last resort because the process can be costly and time-consuming. But you may have no other choice if you and your partners are unable to resolve the situation.

3. File Your Partnership Dissolution Papers and Notify Others

Shortly after you make the decision to dissolve your partnership, you should file the proper paperwork with the state and alert all of your customers, creditors, contractors, employees, vendors, and suppliers. Make sure to cancel any business licenses and permits with the appropriate government departments and notify state agencies when necessary.

Leaving any loose ends could open you to further complications in the future. It's best to be proactive in addressing all of these details before they become a problem. A business attorney can help your partnership stay in compliance even in dissolution.

4. Pay Outstanding Debts and Distribute Remaining Assets

This is bound to be the greatest focus of any partnership dissolution. Who pays the partnership's outstanding debts? How do the remaining profits and assets get distributed?

In a best-case scenario, you and your partners hashed out these details in your partnership agreement. But you may have taken on new debts or bought assets that weren't included in the original terms of your partnership. You'll have to take a full account of your partnership's finances in order to determine how to handle these outstanding balances. If you cannot split an asset between partners (for example, real estate), you may have to liquidate the asset by selling the property and splitting the proceeds. If the partnership cannot pay its debts, the financial responsibility will fall on the partners based on the terms of the partnership agreement – or state laws, if no agreement exists.

- **Limited partners** are usually not personally responsible for partnership debts. But they also tend to get less of the profits and assets.
- **General partners** are usually exposed to personal liability. That means creditors can go after the personal assets of general partners in order to pay the debts of the partnership. Because they take on a greater share of the risk, general partners tend to get a greater share of the partnership's profits and assets.

Unless your partnership agreement says otherwise, profits and assets are often distributed based on how much each partner invested in the partnership. After each partner's capital contributions are covered, the remainder can be distributed based on their ownership share.

How to Dissolve a Business Partnership



5. Finalize Your Tax Accounts and Limit Future Liabilities

Make sure that your partnership’s final tax returns are submitted and marked “final” where appropriate. After you’ve filed all of your tax records, including final payroll taxes and employment tax paperwork, you should cancel the partnership’s tax accounts and identification numbers, including your federal EIN and state employer number.

Finally, you can file a **Statement of Cancellation or Statement** of Dissolution with your Secretary of State. While this isn’t always a legal requirement, doing so creates a clear record of when the partnership is dissolved. This way, none of your partners can bind

you to any future debts or obligations beyond that point. By closing all of your partnership’s accounts, you avoid the risk of someone using those accounts improperly and exposing you to liability.

Unofficially, your partnership may stop operating at any point. But if you and your partners’ business relationship is over, you should officially dissolve your partnership. By tying up any loose ends, you protect yourself from unexpected liability in the future. The business attorneys at Holmes Business Law can help. Call us now at **215-482-0285** or book a call with our staff by [clicking this link](#).



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